

Message Text

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ORIGIN ARA-10

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TO USDEL SECRETARY IMMEDIATE

C O N F I D E N T I A L STATE 044304 TOSEC 040258

E.O. 11652: GDS

TAGS: PFOR, BR

SUBJECT: BRIEFING MEMORANDUM: YOUR LUNCHEON WITH WORLD
BANK PRESIDENT MC NAMARA, FEBRUARY 25

FROM ARA - RYAN, ACTING

1. DURING YOUR VISIT TO BRASILIA, MINISTER OF MINES UEKI
AND MINISTER OF FINANCE SIMONSEN RAISED THREE QUESTIONS
CONCERNING BRAZIL AND THE WORLD BANK THAT YOU PROMISED
TO DISCUSS WITH MC NAMARA.

- A. HYDROELECTRIC PROJECTS. UEKI CLAIMED THAT THE
BANK WAS HESITANT ABOUT CONTINUING FINANCIAL SUPPORT FOR
HYDROELECTRIC PROJECTS IN BRAZIL. IN FACT, WE UNDERSTAND
THE BANK IS ENTHUSIASTIC ABOUT FINANCING HYDROELECTRIC
PROJECTS IN BRAZIL.

- THE BANK HAS, HOWEVER, WITH THE SUPPORT OF THE U.S.,
SOUGHT TO INCREASE THE PERCENTAGE OF BANK LENDING TO
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BRAZIL THAT GOES FOR PROJECTS TO BENEFIT THE RURAL POOR.

THIS NECESSARILY WOULD MEAN SOME DIMINUTION IN THE PERCENTAGE GOING FOR OTHER TYPES OF PROJECTS SUCH AS HYDROELECTRIC AND HEAVY INDUSTRIAL.

TALKING POINT:

- -- MINISTER UEKI HAS THE IMPRESSION THAT THE BANK IS HESITANT ABOUT FINANCING HYDROELECTRIC PROJECTS IN BRAZIL. I TAKE IT THIS IS NOT THE CASE. I WOULD BE INTERESTED IN YOUR COMMENTS.

- B. CARAJAS IRON-MINING PROJECT. UEKI ALSO ASKED FOR YOUR SUPPORT AT THE WORLD BANK AND THE EX-IM BANK FOR THE CARAJAS PROJECT, EXPECTED TO BE THE WORLD'S LARGEST IRON ORE MINING PROJECT AT A TOTAL COST OF ABOUT 3 BILLION DOLLARS. BRAZIL'S REQUEST TO THE WORLD BANK IS CARRIED AS A POTENTIAL 125 MILLION-DOLLAR PROJECT. THE BANK STAFF IS DOING A PROJECTION OF THE MARKET FOR BRAZILIAN IRON ORE, AS PREREQUISITE TO DETERMINING WHETHER TO GIVE FAVORABLE CONSIDERATION TO THE LOAN. EX-IM HAS THE PROPOSAL (250 MILLION DOLLARS IN LOANS AND GUARANTEES) UNDER CONSIDERATION BUT IS WAITING FOR MORE INFORMATION FROM THE GOB BEFORE DECIDING WHETHER TO INCREASE FURTHER ITS ALREADY HIGH EXPOSURE IN BRAZIL.

TALKING POINT:

- -- UEKI ALSO RAISED WITH ME THE CARAJAS IRON MINING PROJECT. THIS SOUNDS LIKE AN EXCELLENT PROJECT FROM THE POINT OF VIEW OF THE WORLD'S LONG-TERM NEEDS FOR IRON ORE. I HOPE THE MARKET PROJECTIONS AND OTHER INFORMATION NOW BEING EXAMINED WILL ENABLE THE BANK TO GO AHEAD WITH THE PROJECT.

- C. SOFT LOANS FOR BRAZIL. SIMONSEN COMPLAINED THAT BRAZIL HAS BEEN DENIED SOFT LOANS BECAUSE OF ITS RELATIVELY HIGH PER CAPITA INCOME, DESPITE THE FACT THAT THERE IS A HUGE AREA IN THE NORTHEAST OF BRAZIL THAT HAS VERY LOW PER CAPITA INCOME. THE BANK HAS FOR YEARS RESTRICTED LOANS FROM THE IDA TO COUNTRIES WITH A PER

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CAPITA INCOME OF LESS THAN 350 DOLLARS. FURTHERMORE, BECAUSE OF THE LIMITED FUNDS AVAILABLE THROUGH THE IDA, IN PRACTICE THE IDA FUNDS GO MOSTLY TO COUNTRIES WITH A PER CAPITA INCOME OF UNDER 200 DOLLARS. MOREOVER, THE NEW LENDING RECENTLY ESTABLISHED THROUGH THE BANK'S "THIRD WINDOW" WILL BE AVAILABLE ONLY TO COUNTRIES WITH A GNP OF LESS THAN 375 DOLLARS PER CAPITA. BRAZIL'S PER CAPITA INCOME IS OVER 800 DOLLARS, SO THERE IS NO POSSIBILITY OF

ACCESS TO SOFT LOAN RESOURCES. THE PROBLEM, OF COURSE, IS THAT BRAZIL'S GNP IS HEAVILY SKEWED IN FAVOR OF SOUTHERN AND EASTERN BRAZIL, AS THE BRAZILIAN GOVERNMENT HAS RECOGNIZED IN ITS DEVELOPMENT POLICIES.

TALKING POINT:

- -- MINISTER SIMONSEN EXPRESSED HIS GREAT INTEREST IN OBTAINING SOFT LOANS FOR DEVELOPMENT OF NORTHEAST BRAZIL. I UNDERSTAND THE LIMITATIONS OF THE BANK'S SOFT LOAN FINANCING, BUT IS THERE ANY WAY TO CHANNEL MORE RESOURCES TO THE NORTHEAST ON MORE FAVORABLE TERMS?

2. WORLD BANK SELECTIVE CAPITAL INCREASE.

- MC NAMARA ASKED MINISTER BOTERO OF COLOMBIA TO DISCUSS WITH YOU THE QUESTION OF U.S. PARTICIPATION IN THE SELECTIVE CAPITAL INCREASE DESIRED BY THE BANK. STATE HAS FAVORED EARLY U.S. AGREEMENT TO PARTICIPATE IN THE INCREASE, WHICH WOULD RAISE THE RELATIVE WEIGHT OF THE OPEC COUNTRIES IN THE BANK. TREASURY, HOWEVER, HAS BEEN RELUCTANT, LARGELY FOR CONGRESSIONAL REASONS. SIMON MAY BE COMING AROUND TO OUR VIEW; WE ARE RECOMMENDING IN A SEPARATE MEMORANDUM THAT YOU PHONE HIM TO EXPRESS SUPPORT FOR THE PROPOSAL.

TALKING POINT:

- -- I WILL BE DISCUSSING THIS MATTER WITH SECRETARY SIMON. I EXPECT THE U.S. WILL HAVE A POSITION BEFORE THE BOARD'S MEETING IN MID-MARCH.

3. JAMAICA HAS BEEN SEEKING A PACKAGE OF SUBSTANTIAL
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BILATERAL ASSISTANCE FROM THE USG. UNABLE TO COMPLY, WE HAVE DISCUSSED WITH MEYER MATALON THE POSSIBILITY OF AN APPROACH TO THE WORLD BANK WHICH WOULD MAKE JAMAICA A TEST CASE PROGRAM TO REDUCE URBAN UNEMPLOYMENT AND INEQUALITY. HE, AND MANLEY, LOOKED ON THE IDEA FAVORABLY; IT WOULD MEAN WORLD BANK FINANCE BEYOND PRESENTLY PLANNED LEVELS. WE HAVE RAISED THE IDEA FORMALLY WITH BANK VICE-PRESIDENT FOR LATIN AMERICA KRIEGER, AND HAVE SUGGESTED THAT A SPECIAL MISSION BE SENT TO INVESTIGATE THE POSSIBILITY OF SUCH A PROGRAM.

TALKING POINTS:

- -- I UNDERSTAND THAT WE HAVE BEEN IN TOUCH CONCERNING A SPECIAL ENHANCED LENDING PROGRAM FOR JAMAICA AS A TEST

CASE TO REDUCE URBAN UNEMPLOYMENT AND INEQUALITY. WE
LOOK FAVORABLY ON SUCH A PROSPECT. IT WOULD CONTRIBUTE TO
POLITICAL STABILITY IN AN INCREASINGLY VOLATILE ENVIRON-
MENT.

- -- SINCE SUCH A FOCUS IS CONSISTENT WITH THE BANK'S

PRIORITIES, I HOPE YOU WILL SUPPORT THE IDEA EVEN THOUGH
JAMAICAN PER CAPITA INCOME IS APPARENTLY HIGH. THE UN-
EMPLOYMENT PROBLEM IS ONE THAT CORRESPONDS TO SEVERE
UNDERDEVELOPMENT.

- -- PERHAPS A SPECIAL MISSION COULD BE SENT TO
INVESTIGATE THE FEASIBILITY OF SUCH AN APPROACH. INGERSOLL

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